

Original Bds

WC

1

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

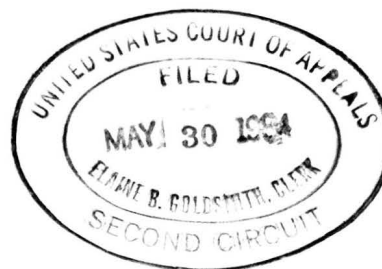
-----x
UNIVERSAL CITY STUDIOS, INC.,

Plaintiff-Appellant

against

NINTENDO CO. LTD. and NINTENDO
OF AMERICA, INC.,

Defendants-Appellees.
-----x



84-7095

New York, N. Y.
May 23, 1984
11:45 a.m.

Before:

HON. THOMAS J. MESKILL,
HON. AMALYA L. KEARSE,
HON. HENRY J. FRIENDLY,

Circuit Judges.

APPEARANCES:

TOWNLEY & UPDIKE

Attorneys for Plaintiff-Appellant
BY: DOUGLAS C. FAIRHURST

MUDGE ROSE GUTHRIE ALEXANDER & FERDON

Attorneys for Defendants-Appellees
BY: JOHN J. KIRBY, JR.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

MR. FAIRHURST: May it please the Court, my name is Douglas Fairhurst and I am representing plaintiff-appellant Universal City Studios on this appeal. I would like to reserve five minutes of my time for rebuttal.

The case comes to the Court from a summary judgment below on an unfair competition claim that embraced legal theories under section 43(a) of the Lanham Act, unfair competition at common law, and dilution under New York's dilution statute. The gist of the claim, if I can summarize it very briefly, is this: Universal owns rights in the name King Kong, made famous by two very important motion pictures in American filmdom, and by other pictures as well, but one released by RKO in 1933 and the second by Paramount through Dino De Laurentiis in 1976.

The claim largely depends on a name used by the defendant on a video arcade game called Donkey Kong, in conjunction with a gorilla, a fair maiden, on top of a building. And it is Universal's claim in the case, principally, that the use of Donkey Kong embodying the King Kong name, the second portion of it, in conjunction with those other elements, is, first, likely to lead buyers of that game and players to make

the immediate association with King Kong. That is the secondary meaning.

JUDGE MESKILL: But they didn't use the King Kong name. You said embodying the King Kong name.

MR. FAIRHURST: Embodying Kong from the King Kong name, and in conjunction with the use of a gorilla, a fair maiden, standing on top of a building, which is what the Donkey Kong does, your Honor.

I have here an exhibit that was used below, and I will hold it up for the Court to see. This is the defendant's game, an advertisement for it, not the playing surface of the game, not the mode you would see when you play it, but an advertisement for it. Donkey Kong. And you can see the gorilla, the fair maiden, on top of the building.

I would next hold up a product that is licensed by Universal to a company called Tiger, and it is a video -- this is not the video game -- this is the cassette game, the cover of it, for the King Kong product that Universal distributes. And this is used on a tabletop game and --

JUDGE MESKILL: When did that come out?

MR. FAIRHURST: This came on the market approximately two months after Nintendo's product but

was licensed in the negotiations before Universal even learned of the Nintendo game.

Universal learned of the Nintendo game in April 1981, and the game -- when I say the "game" now, I am speaking of the Donkey Kong game -- had been on the market since roughly, I guess, June, but sales took off for Donkey Kong approximately in the fall of 1981. Nintendo sells its arcade game for approximately \$2,000, and it sold generally to people who operate arcade emporiums, to restaurants, to motion picture theaters, to pizza parlors, restaurants and so forth. The game sells for between \$2,000 and \$3,000. In addition to that, Nintendo licensed Coleco to distribute and sell a tabletop version and a version for the home video market, to be used in conjunction with Coleco's Colecovision. In other words, it is essentially the same game that you would play in an arcade emporium, except it is on your screen in your television. Subsequently, they also licensed Atari to do much the same with Atari's new computer system. Taking the gross sales of Nintendo's arcade game and as licensed to Coleco, the revenues have exceeded, we believe, approximately one-quarter of a billion dollars. So it is a substantial commercial enterprise. It has been, as the

defendants point out, immensely successful.

Before I get into the legal issues raised on this appeal, however, I do want to put the case in its proper context, because I have really two issues to focus on here. Judge Sweet below took them in the order in which it made sense logically. One, the question, does Universal have rights in King Kong? And he decided that question against Universal, largely by reading an assignment that Universal received and a judgment on which that assignment was based as an assignment in gross, not transferring goodwill of the motion picture maker. But to do that he also ignored several important things. To begin with, there was testimony in deposition by RKO below that Universal is the only party today with the exclusive rights to exploit the name King Kong, the King Kong gorilla and the King Kong elements of the story made famous in merchandising.

In addition, there were affidavits submitted below by both Dino De Laurentiis and by Paramount with respect to the second motion picture, King Kong, released in 1976, which also say the same thing: that Universal today is the authorized exclusive owner of the rights in the name King Kong for merchandising.

1
2 Finally, there has been Universal's own
3 continuous use of the King Kong name as a trademark, in
4 conjunction with the licensing of the product to which
5 I have just referred -- this (indicating) in
6 conjunction with Universal's own plans which are in
7 development and have been now for approximately two
8 years --

9 JUDGE MESKILL: For what purpose did they
10 use it from the time of the assignment until they came
11 out with the King Kong game?

12 MR. FAIRHURST: Universal first licensed
13 anyone to use King Kong in 1980, at the expiration --

14 JUDGE MESKILL: What was date of the
15 assignment, again?

16 MR. FAIRHURST: The assignment that
17 Universal took would be December 15, 1976, and that is
18 in the record. It is an agreement between Mr. Cooper,
19 to whom a court had awarded the King Kong rights by
20 virtue of litigation in 1975, which I will turn to in a
21 moment, and -- I am sorry, the assignment was December
22 15. And at that point there were then outstanding
23 approximately thirty merchandising licenses that RKO
24 had already licensed through Dino De Laurentiis and
25 through Paramount Pictures. When those licenses

expired, Universal at that point began to exercise its merchandising rights.

JUDGE MESKILL: Were those exclusive licenses?

MR. FAIRHURST: No, they were not, your Honor.

JUDGE MESKILL: So Universal could have issued some more licenses from 1976 to 1982?

MR. FAIRHURST: That's correct. Universal could have done that. It could have done that. But at that time, your Honor, there was the release by Paramount of the second King Kong picture, 1976. And instead of actually trying to compete with Paramount, as it were, what Universal did was to arrange to receive the benefit of those licensed by getting a percentage of the royalties, and that all of those transactions derive from litigation that occurred in 1975 between Universal and RKO. And that is very simple. I am going to do that in two sentences if I can.

Universal sued to protect its own rights to proceed with a then planned King Kong remake. RKO challenged Universal on it, and Universal did defend in that proceeding an unfair competition claim by RKO.

1 And the defendants cite this against us several times
2 on their judicial estoppel, and they made the arguments
3 below which Judge Sweet rejected for collateral
4 estoppel. But we don't believe that Universal is
5 either collaterally estopped, and neither did Judge
6 Sweet, and we certainly don't believe it is judicially
7 estopped, because the claims are quite different.
8

9 JUDGE MESKILL: Your success rises or falls
10 on whether or not there is secondary meaning?

11 MR. FAIRHURST: Absolutely, your Honor. And
12 now I go to Gay Toys --

13 JUDGE MESKILL: What is your answer to that
14 question?

15 MR. FAIRHURST: The success of my case? Yes.
16 Unequivocally.

17 JUDGE MESKILL: And then whether or not
18 there is confusion as to source.

19 MR. FAIRHURST: That is the second part.
20 After establishing secondary meaning, which is my first
21 step, I then have to establish that when people buy or
22 play the Donkey Kong game, they are going to make the
23 association with King Kong and believe that the game is
24 sponsored by or originates with the motion picture
25 people.

JUDGE MESKILL: Even assuming they say the idea for this came from King Kong, why couldn't they be thinking of the 1933 movie, the 1976 movie, the T-shirt they saw somewhere, the book that was written or something else? When you are talking about confusion as to sources, it doesn't matter?

MR. FAIRHURST: It doesn't matter, your Honor, because the goodwill reposes in all of them. Everything originated with RKO. The second picture, the one to which I have referred, by Paramount, derives from RKO. It was licensed by RKO. RKO licensed all of the other King Kong picture. RKO licensed all of the merchandising that took place between 1933 and 1976. And as a consequence of losing its trademark rights in litigation, those rights were subsequently assigned to Universal. They are valuable today only because of the secondary meaning of the name in conjunction with the motion pictures and all of the merchandising undertaken that preceded Universal's time.

JUDGE MESKILL: That would make a lot of sense if Nintendo was using the name King Kong, but in using the name Donkey Kong doesn't it create a gap?

MR. FAIRHURST: It's close, your Honor. In addition to which there was testimony and it cannot be

contradicted, testimony below, deposition by the Japanese developers of this game, that they had King Kong in mind. There are documents that they based the game on King Kong after first determining they could not use a then Popeye game with Bluto and the like because of technical problems. They then went to King Kong. Messrs. Miyamoto and Yokoi testified that they did have King Kong in mind. They had seen the pictures and they believed that they could use this. They didn't know anything about its status as a property right or a trademark in the U.S., but they did that.

The second point, your Honor, is the testimony of the president of the American subsidiary of Nintendo, Mr. Arakawa. I say testimony; I don't want to overdo it. It was in an affidavit given prior to these proceedings, which were brought in June 1982. He gave an affidavit in which he testified, in conjunction with their own efforts to stop knockoffs of Donkey Kong, that Donkey Kong -- excuse me, that King Kong, in addition to others, Crazy Kong and others, was confusingly similar to Donkey Kong.

It is not just the name. We stress the name here. Universal does claim trademark rights in the name King Kong. It is licensing those rights today and

it has projects in planning stages and development. But the fact is, it's Donkey Kong, your Honor, in conjunction with other elements: the ape, the fair maiden, on top of a building. And if I went back to the Gay Toys case, which I would stress here, your Honor, in terms of the secondary meaning, this Court said in that case, speaking of the General Lee, which was the car in that case:

"The symbols on the 'General Lee' just as clearly have a secondary meaning in the eyes of the consumer of the toy car. There was ample evidence -- indeed Gay Toys' sales of its imitations are themselves proof -- that the public did associate the 'General Lee' -- i.e. this orange car with the decal on it -- "with the Dukes of Hazzard television series. Its distinctive markings and color made it a 'Dukes of Hazzard' car, or a toy depicting that car." Now: "It is because of that association, the identification of the toy car with its source, Warner's television series, that the toy car is bought by the public. That is enough."

That gets me by secondary meaning.

I have reserved five minutes. I have to give Mr. Kirby the opportunity.

MR. KIRBY: May it please the Court, my name

is John Kirby. I am counsel for the defendant-appellees Nintendo in this action.

At the outset I would like to correct one inadvertent misstatement of fact that Mr. Fairhurst just made, and I do this only because it becomes quite important in the context of what Universal has or has not done since 1976 when it claims it acquired the trademark. That is the game Tiger that was held up did not come out before the --

JUDGE MESKILL: Tiger? I thought what was King Kong.

MR. KIRBY: Your Honor, it is produced by a licensee called Tiger. It has King Kong on it.

JUDGE MESKILL: All right.

MR. KIRBY: That game was actually first marketed almost one year after Nintendo marketed Donkey Kong, after the bulk of Nintendo's sales of its video arcade game had been made, and after Universal had forced Tiger to change the game play because it was really on its face such a crude ripoff -- I won't attribute the statement it was a crude ripoff to Universal. They did force them to change the game play.

So in fact, your Honor, from 1976 until the time that Nintendo marketed Donkey Kong, Universal had

1 taken over one successor licensee from RKO, deriving
2 \$3,000 revenue for Halloween masks, and it in an
3 interrogatory claimed Tiger marketed a year after
4 Nintendo's Donkey Kong, and as to one of Nintendo's
5 licensees, Coleco, Universal really began by claiming
6 it as licensee as a result of an agreement which it had
7 extracted from Coleco to avoid litigation, which I will
8 deal with in the course of my argument.

9
10 Your Honor, I also would point out that in
11 Mr. Fairhurst's argument he has once again fallen into
12 the confusing type of claim which gave both Nintendo
13 and Judge Sweet such difficulty below. He began his
14 argument by saying that King Kong, the name, is
15 principally what we are claiming, a name made famous in
16 the movies; but of course, as he admits and concedes,
17 they don't have any rights to anything in the movies.
18 Then when asked, your Honor, what the secondary meaning
19 is, he begins talking about it's the name in
20 conjunction with those movies and the goodwill that was
21 created by those movies.

22 This fuzziness, this lack of precision, as
23 to what the mark claim is, is most unusual in any
24 trademark action, but it derives from a very simple
25 reason, one that Universal wants to ignore but finds

1 that it cannot ignore in any aspect of its arguments
2 addressed to this Court. Nintendo was on the market
3 with an immensely successful game. They had sold
4 almost 60,000 games. The game had been on the market
5 for eight months. It was a classic in this new video
6 arcade market, widely written up, displayed all over
7 the place, second only to Pacman in its notoriety and
8 sales, when out of the blue for Nintendo, since
9 Nintendo had unqualified opinions of trademark counsel
10 that it was perfectly appropriate to name this game
11 Donkey Kong, it was notified by Universal that there
12 was a conflict, that there was a likelihood of
13 confusion between Nintendo's Donkey Kong and this
14 Universal-claimed trademark.
15

16 Obviously, Nintendo was immediately shocked.
17 It looked at what it thought was King Kong, the movies,
18 and then it looked at what we have tried to portray
19 here, I am afraid not as amusingly as in the court
20 below, only by way of pictures -- we don't have the
21 game here, but we do have the games available, of
22 course, for the Court as well as the movies. We looked
23 at the movies, we looked at the game, and saw what
24 Judge Sweet saw when he looked at it in his courtroom,
25 with Universal sitting by and watching everything that

Judge Sweet was doing, that there wasn't any likelihood of confusion.

But we decided: What is this King Kong trademark? And where is it that Universal has a right to claim this trademark? And we began quickly to look into that fact, because it was immediately apparent, when you looked at the two movies -- one was made by RKO, one was made by Dino De Laurentiis -- Universal was a stranger to that.

So we go back and we find that in 1975, 1976, Universal, complete stranger to King Kong, whatever it was, had gone to court because it felt affronted by what it claimed was a violation of an oral agreement with RKO giving it the right to remake the movie. It went to court, saying, "We have the right to make the movie because this is in the public domain. King Kong is not restricted. RKO, Dino De Laurentiis, defended and counterclaimed. Universal also sued the heirs of Cooper, the man who had originally developed the King Kong story.

Now, it is important to remember, and I am not talking about collateral estoppel now, that in that litigation, if Universal had simply won on its copyright claim, that is, there is no existent

1
2 copyright, that did not give it the right, free and
3 clear, to make a movie and call it King Kong if indeed
4 somebody else still owned a trademark. We all know
5 that a trademark can survive apart from the legal
6 expiration of the copyright.

7 So Universal litigated that subject actively.
8 It advised the Federal District Court, in response to a
9 direct question, that King Kong wasn't a trademark, and
10 as a result of that litigation it won. It won in 1976
11 and it won on all counts. That judgment remained in
12 effect for almost four years, until it was finally
13 vacated.

14 Now, your Honor, despite the fact that
15 Universal claimed to have acquired a trademark in '76,
16 I think it becomes readily apparent that Universal was
17 not exercising its so-called trademark rights for the
18 next four years, because it was still in the Ninth
19 Circuit on appeal where it was claiming that there
20 weren't any such rights in the King Kong property.

21 So did Universal ever acquire a trademark in
22 King Kong? I think the answer to that is clear and the
23 answer is no. In the context of the judgment which
24 Universal claims as the source of its rights, Universal
25 was advising Judge Real, protesting against his

1 preliminary orders for Mr. Cooper, that they can't do
2 anything to indicate that there was a trademark here.
3 In the judgment itself there is not a word specifying
4 the trademark was being conveyed.
5

6 Of course, Universal doesn't take full
7 responsibility for what Judge Real wrote, but two weeks
8 later they entered into an agreement with Mr. Cooper.
9 No one would claim that Universal is not highly
10 sophisticated in the art of acquiring and developing
11 trademarks. In that agreement there is not a mention
12 of a trademark which they allegedly are acquiring from
13 Cooper.

14 But leave aside, as Judge Sweet did below,
15 the fact that there are no words talking about the
16 trademark, the fact of the matter, as Judge Sweet found,
17 was that to attempt to convey a trademark alone as a
18 matter of law was ineffective. So even if the words
19 had been in there, a trademark wouldn't have been
20 conveyed. And why not? In part because of the second
21 argument and the argument that Mr. Fairhurst has
22 already begun to address, that no goodwill was conveyed.
23 The most that was conveyed -- and Judge Sweet expressed
24 great puzzlement as to what if anything was conveyed --
25 was the right to use a name, but no right, explicitly

no right, to use anything in the 1933 movie or the 1976 movie that was then under production, no right to reference that name, to put it into a context. And we find, as we go in and look to what Judge Sweet found as to confusing sources, that confirmed in fact what Universal didn't obtain, because Universal in practice, ever since it purported to start exercising trademark rights in around 1980, has explicitly and on the record and without dispute advised its employees from the president of Universal on down, we can't use anything in those movies.

So they have been left with saying: Well, we own King Kong. But, now, wait a minute, we don't just own King Kong by itself, it's King Kong and some gorilla. Well, what gorilla? Well, at various times they use words, a large gorilla, or a particular gorilla, or a gorilla on a building, but not the gorilla that is in the movie, either movie. They don't own that.

So I suggest that Judge Sweet was quite correct in finding below that there was no transfer of goodwill, there was no intention to transfer the trademark, and the absence, even if there had been an intention to transfer the trademark, of a transfer of

goodwill --

JUDGE MESKILL: Are you saying that they acquired the right to use the name but not the exclusive right to use it?

MR. KIRBY: No, your Honor, I am not. I am saying I don't know what they acquired. I am in the same position as Judge Sweet was. They may have acquired the right to use the name free from attack by RKO and DDL as a result of the subsequent settlement, but they didn't acquire any goodwill. Whatever they acquired, they didn't acquire a trademark. So they might be able to use the name, maybe Mr. Fairhurst and maybe Universal is ultimately going to claim that they can apply the name alone, without any graphic reference, to a bunny rabbit and talk about the King Kong bunny rabbit, but I don't think there is any goodwill. I think Judge Sweet correctly found no goodwill acquired below.

Your Honor, just spending a moment on what we have already spoken about previously, Judge Sweet also found that these facts were so extreme that secondary meaning could not be identified because the sources of King Kong were now so split. There weren't any factual disputes about most of this, because he

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

WC 20
looked at the documents, he looked at the agreements,
and he looked at what Universal itself said and that is
we can't use any of these graphic images.

There is a dispute, which we have discussed
in our brief, as to how Judge Sweet treated all the
third-party uses. It is sufficient to say that, as to
those third-party uses, the answers to interrogatories
by Universal indicate that they didn't even know about
those uses until Nintendo went out and pointed up a
bookful of them to them and said, "What have you done
about them?" And the fact of the matter is they hadn't
done anything about them.

Your Honor, I would like to move for a
moment to the likelihood of confusion. Judge Sweet did
exactly what this Court said should be done in the
recent Superman case. He looked at the total field, he
looked at the concept, he looked at everything together
that Universal was presenting. He looked at it in a
courtroom where both parties were represented and could
have brought in anything they wanted to show him as to
whether or not there was a possibility of confusion,
and concluded, as I believe this Court would do if it
looked de novo even at the pictures that have been
presented as exhibits here, that there is no possible

1
2 confusion between X, whatever it is, that goes with
3 King Kong, this graphic, whatever this graphic image is,
4 and the Donkey Kong game.

5 Your Honor, I would like to spend a moment --

6 JUDGE FRIENDLY: If we should agree with you
7 on that, do we have to approach any of the other issues
8 in the case?

9 MR. KIRBY: Your Honor, I think that is a
10 fair question. I think you could agree with me simply,
11 oh, no likelihood of confusion, and affirm on that
12 basis alone. I think that the other bases are
13 significant, however, in that we have a number of
14 licensees, there is a whole product market of Donkey
15 Kong games, and the only way that we can absolutely be
16 sure of being free from attack and, indeed, the only
17 way where we have the predicate to do what we are
18 continuing to do below in counterclaims is to press the
19 fact that Universal not only didn't have rights when it
20 did what I am about to describe --

21 JUDGE FRIENDLY: You counterclaimed for some
22 kind of declaratory judgment?

23 MR. KIRBY: No, your Honor, we have
24 counterclaimed for revenues. We have counterclaimed
25 for revenues they have deprived us of from their action

among other things --

JUDGE MESKILL: On Coleco.

MR. KIRBY: Against Coleco and Atari.

JUDGE FRIENDLY: How does that stand?

MR. KIRBY: The trial is pending on that, pending the decision on this appeal. There has also been a related case by Coleco filed, asking to get back the money that it paid to Universal.

JUDGE FRIENDLY: The summary judgment came on your judgment to dismiss the complaint, didn't it?

MR. KIRBY: Yes, your Honor.

JUDGE FRIENDLY: If that prevails, what is left? Is it that your counterclaims are all left?

MR. KIRBY: Yes, our counterclaims would all be left. They were specifically reserved, and the opinion was certified.

JUDGE FRIENDLY: That is right.

MR. KIRBY: Let me just spend a minute on the agreement with the Nintendo licensees. In this case Judge Sweet -- and this was independently the basis for summary judgment in our favor -- did find that it certainly did not benefit Universal in presenting its case. We have described what Universal has not done with King Kong, assuming they believe they

1 had a right for the last eight years. What did they do?
2 They went after the Donkey Kong licensees. And they
3 went after the principal first licensee, Coleco, who
4 has marketed some 6 million games in the homes
5 throughout the United States that have on them the
6 Nintendo trademark, Donkey Kong trademark, Colecovision,
7 and not one word about Universal.
8

9 They didn't seek of Coleco a preliminary
10 injunction. They have participated in and have
11 benefited from the dissemination of the product that
12 they claim is likely to lead to confusion.

13 We argued to Judge Sweet that no one can do
14 that, because if someone claims that there is an
15 infringing product, and they then enter into an
16 agreement which allows that confusion to be
17 disseminated in order to profit from it, that they
18 become participants in the creation of confusion, that
19 they are admitting there is no confusion, or they are
20 abandoning their trademark. Your Honor, may I quickly
21 finish up?

22 JUDGE MESKILL: I will give you a couple of
23 more minutes. And I will give the same to your
24 opponent.

25 MR. KIRBY: Thank you. Universal takes the

1 position that it is not an abandonment, because, after
2 all, they didn't intend to abandon it, and I agree they
3 don't really want to abandon it, the abandonment is by
4 operation of law, and that it is not really an
5 admission of confusion even though they participated in
6 the dissemination.
7

8 They say it was simply a cool, pragmatic,
9 commercial judgment. You are not allowed to do that in
10 settling trademark cases. You can settle trademark
11 cases, but if, for example, Rolls Royce found someone
12 had decided to market a car in the United States and
13 was going to use the Rolls Royce trademark on it, and
14 they say, "What are you doing? We are going to sue you,"
15 and the person says, "Don't worry about it, you only
16 bring in 900 cars a year, you only make, whatever,
17 twenty or thirty million, I am going to sell a lot more
18 and you will make 70 million." And Rolls Royce says,
19 "Well, a cool, commercial judgment is to settle with
20 these people and let them go on using Rolls Royce" --
21 they can't do that unless they are going to then step
22 in and supervise the marketing of that product, in
23 effect make them a licensee. What Universal did here
24 was to constitute Nintendo licensees as naked licensees
25 of their own. Indeed, in the beginning they called

1 WC
2 them licensees and then they backed off that when they
3 saw the danger that that was leading them into.

4 JUDGE FRIENDLY: As I listen to you, I begin
5 to worry about a 54(b) problem. The certificate is
6 essential and you have it, but that doesn't mean that
7 we have to decide the appeal if we think that it is
8 going to prejudice the future conduct of the litigation,
9 because, I guess as you would put it, the judge abused
10 discretion in issuing the 54(b) certificate. Is there
11 a problem about that here?

12 MR. KIRBY: I don't think so, your Honor.
13 In the first place, the certificate was specifically
14 issues at the request, or we agreed to it, of the
15 plaintiffs in this case. We have made what obviously
16 the plaintiffs consider to be traditional counterclaims
17 in a trademark infringement action. We intend to press
18 those claims. But I think that essentially they turn
19 on issues which have not been explored, have not been
20 addressed, and would indeed have resulted in disputed
21 facts.

22 JUDGE FRIENDLY: Our decision here is going
23 to have a tremendous impact if we agree with you on
24 everything, isn't it?

25 MR. KIRBY: Your Honor, I think it would

1 have no more of an impact, with all due respect, than
2 if they hadn't taken an appeal and we had gone
3 immediately into trying the counterclaims in front of
4 Judge Sweet.
5

6 Of course, I would think that any time there
7 is a 54(b) certification, it is going to have an impact
8 on the losing party's feelings, course of action,
9 attitudes towards settlement, attitudes towards
10 approach to the rest of the litigation. But in this
11 aspect of the case, what we have argued, and
12 successfully, below in terms of asking for dismissal
13 was in areas where there are undisputed facts, where
14 there are documents that this Court should look to.
15 And what we did say to Judge Sweet below is that
16 defending against those allegations when summary
17 judgment is appropriate obviously would require an
18 entirely different approach from both the foreign and
19 domestic defendant subsidiaries. But, your Honor, I
20 don't believe there are 54(b) problems here.

21 Your Honor, in conclusion I simply suggest
22 that Judge Sweet amply considered and discussed issues
23 which are undisputed and should lead this Court to
24 affirm the grant of summary judgment. Thank you.

25 JUDGE FRIENDLY: I have another question of

WC

1
2 you. Is your brief printed in 11 point type as
3 required by Federal Rules of Appellate Procedure? It
4 certainly doesn't look so to me.

5 MR. KIRBY: Your Honor, I believe, in fact I
6 am sure, it is 11 point type. The space between lines
7 is perhaps not as great as a commercial printer would --

8 JUDGE FRIENDLY: In my practice, I remember
9 somebody who Judge Hand refused permission on an
10 oversized brief, and he said, "I'll fix him. I'll get
11 the letters so close he can't read it anyway."

12 MR. KIRBY: Your Honor, I certainly hope it
13 wasn't printed so close that you couldn't read it.

14 JUDGE FRIENDLY: It was close to it. I
15 suggest you mend your ways on that.

16 MR. KIRBY: I apologize, your Honor.

17 MR. FAIRHURST: If I may pick up, your Honor,
18 in rebuttal on a point that Mr. Kirby just left off on,
19 on 54(b), in response to your questions, Judge Friendly.
20 One of the problems here -- and I would emphasize again --
21 this is a summary judgment motion, and it would be fair
22 to say that insofar as the question of rights, and by
23 which I mean broadly what are Universal's rights, let's
24 look at the assignment and what is Universal doing.
25 That could be a legal question. And Mr. Kirby and I

1 don't disagree that one could read the documents and
2 look at it in context and form an opinion on it, and I
3 think that is a legal matter. But on the question of
4 secondary meaning and the question of likelihood of
5 confusion, I think here is where Judge Sweet did weigh
6 the evidence on affidavits and come to decisions. Now,
7 he may do that on trial, but that is not the same.
8

9 Mr. Kirby said before that there was no
10 goodwill that Universal got. That just is simply not
11 true. There are affidavits below, and I will
12 specifically refer to them. One is by Mr. Sidewater
13 from Dino De Laurentiis Corporation; the other is by a
14 gentleman at Paramount, the marketing executives in
15 charge of their merchandising efforts which were
16 authorized by RKO. That picture came out, the second
17 one, through RKO's auspices. Those two affidavits,
18 plus the testimony of Mr. Regan, who was the RKO
19 spokesman, which Mr. Kirby's office deposed, were
20 consistent. Universal has the goodwill in the name
21 King Kong for merchandising. There is no division of
22 rights. The value of the name King Kong in conjunction
23 with a gorilla character for merchandising, selling
24 products, whether they be video arcade games, video
25 games like this, tee shirts, dolls, or what have you,

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

reposes in the association which the public makes with the motion picture -- motion pictures, I should say. If no one ever heard of the pictures, I would submit that no one would be selling King Kong or Donkey Kong, and there wasn't one bit of doubt that the defendants in this action were consciously aware that they were making a product and selling it that embodied King Kong.

JUDGE MESKILL: The argument is that if there had been no King Kong there would be no Donkey Kong.

MR. FAIRHURST: That's right. And I can't do any better than the statement made by the -- I think he was the sales executive of Nintendo of America Inc., his name is Don James. We quote him in our brief. He was queried about the importance of knowing the characters in this video game business, which is a very competitive one and is today somewhat in the doldrums. And Mr. James said, you take Tron. The Disney people had a built-in advertisement for that video game by virtue of the motion picture, and then the same gentleman went on to talk about one of Nintendo's products, which is a

Popeye video arcade game for which they have a license, and he said, Popeye too. It's the same thing. If people know the character from a motion picture, from a television series or from some other form of mass entertainment, they are likely to be stimulated to play the game. It doesn't mean they are going to buy the game or anything of the sort.

JUDGE MESKILL: You are talking about Popeye and Popeye, but here you are talking about Donkey Kong and King Kong.

MR. FAIRHURST: Donkey Kong and King Kong, but, your Honor --

JUDGE MESKILL: There has never been King Kong in an arcade game. There has been a King Kong movie.

MR. FAIRHURST: Your Honor, there has been a King Kong licensed product, and I want to come back to this. Mr. Kirby made this the first point: This product came on the market after Universal learned of Nintendo, but the negotiations for this product, the license that the Tiger people took from Universal, were obtained before Universal ever heard of Donkey Kong.

JUDGE MESKILL: Then isn't confusion being created by Universal by putting out a software or

cartridge or game or whatever it is to compete?

MR. FAIRHURST: Is there confusion now?

JUDGE MESKILL: Is there confusion being caused by the subsequent activity of Universal rather than by the prior activity?

MR. FAIRHURST: We don't believe so, your Honor, at this point, for the simple reason -- you are referring to the settlement agreements which Universal entered into with licensees?

JUDGE MESKILL: No, I am referring to the fact your game came after their game. If your game had not come out at all, what would your argument be?

MR. FAIRHURST: There still would be confusion, because the persons who buy Donkey Kong would be doing so in the first instance because of the association with King Kong, and they would believe -- and this is the heart of our case -- they would believe that the Donkey Kong game originates with or is sponsored by the persons responsible for the motion picture, where Judge --

JUDGE MESKILL: Which motion picture?

MR. FAIRHURST: The persons -- the persons? -- the motion pictures themselves under Gay Toys, your Honor. All they have to do is make the association

1 with the picture. The goodwill reposes in the picture.
2 Trademark law does not require --
3

4 JUDGE MESKILL: Universal doesn't have any
5 rights in the picture.

6 MR. FAIRHURST: That is another one of Mr.
7 Kirby's statements which is not quite true. Universal
8 doesn't have any copyright in the picture, but
9 Universal has the right to use the picture elements so
10 long as it does not use verbatim copies of the picture.

11 JUDGE MESKILL: Can it use stills of the
12 picture?

13 MR. FAIRHURST: No, it cannot use a still
14 but it can use anything up to a still for merchandising.
15 For merchandising. It can't use the picture, no. The
16 copyright that RKO holds in its own picture protects
17 the picture in its entirety and protects verbatim
18 copies of it, but Universal is allowed to use the name
19 it is allowed to use scenes from it, it is allowed to
20 use depictions of the gorilla in it. Not verbatim, but
21 all the way up to the point of merchandising its
22 products. That is what Universal has the right to do.
23 And the bases on which Universal relies in this case,
24 as its claim of origin tracing its claim of title in
25 King Kong, so recite. There are two of them. There is

Judge Real's findings on the Cooper cross-claim, and it is in the Record on Appeal and in the Appendix and in our brief, both parties cite it, and it is in the Cooper agreement of December 15 about which your Honor questioned me a few minutes before. And both of them say that Universal has -- not both of them -- the Cooper agreement granting from Cooper to Universal the right says: All rights in the name, character, and story elements of King Kong, with the exception of those that were reserved to RKO, meaning its copyright and its pictures.

That is where Judge Real went off in the opinion below in his decision on the conflicting rights. But they are not conflicting rights.

JUDGE MESKILL: Judge Sweet, you mean, not Judge Real.

MR. FAIRHURST: I am sorry, Judge Sweet. Judge Sweet below talked about conflicting rights. But they are not conflicting rights. One is a copyright in a motion picture and the other is the trademark rights which are derived from the motion picture. And in the entertainment business, it is common for one party to have trademark rights to sell ancillary product, licensed products by virtue of a picture, and someone

2 else, the distributor usually, having the actual
3 copyright in the picture. That is not an unusual
4 occurrence. Your Honor had it before him, and the
5 defendants cite it, in the Warner Bros. game. It is
6 not dissimilar in that respect. And that is the case
7 on which Judge Sweet relied to take this case under
8 summary judgment. I think he principally relied on it.
9 He did it on a number of bases.

10 Before I use up all my time, I want to come
11 back to the rights question because that is important.
12 If this Court were to take this case solely in terms of,
13 well, we don't believe Donkey Kong is confusingly
14 similar to King Kong, that is one thing. But Judge
15 Sweet didn't let us get that far. He took the rights
16 away from us, or right from Universal, which it is
17 actually using. Universal has projects in-house. It
18 had those projects in-house before it ever heard of
19 Donkey Kong. It is developing today a major
20 presentation at its studio in conjunction with the "theme
21 park." It has plans for additional King Kong pictures.
22 And it has ongoing licensing agreements for King Kong.
23 It is using King Kong. It has been using it since it
24 first could in 1980 when the Paramount licenses expired.

25 Now, the defendants say, "Well, you haven't

2 been using it in a big way." That was perfectly true
3 at one time.

4 JUDGE MESKILL: How long do you have to wait
5 until the licenses expire? These are not exclusive
6 licenses.

7 MR. FAIRHURST: That is true, your Honor,
8 but at that time, had Universal begun to introduce
9 merchandising through King Kong in 1976, while the
10 matter was on appeal, one, their rights were still
11 uncertain, and, most important, it probably would have
12 interfered with Paramount's picture. And at that point
13 they were settling lawsuits.

14 Finally, before I go off on that -- I don't
15 want to go off on it, I want to come back to it quickly --
16 but I do want to say one thing about the license
17 agreements that Universal signed with Coleco, Atari,
18 and with Ruby-Spears, which are referred to in the
19 defendants' brief. There was testimony by Universal's
20 chief executive officer that these were settlement
21 agreements, and there is a case that I would cite to
22 your Honors, which Judge Sweet did not pay any
23 attention to at all -- it is a good First Circuit case,
24 it is referred to in our brief -- and it is the Cross
25 Pen decision. The Court has sometimes -- there is

tension between the two, and you cannot get around that. The trademark principles are developed to protect public confusion, but there is also a public policy in favor of encouraging settlements.

JUDGE MESKILL: Wouldn't normally these settlements include a provision that you would have to supervise a product that is under license?

MR. FAIRHURST: Not necessarily.

JUDGE MESKILL: Isn't that normal?

MR. FAIRHURST: If it were a licensing agreement, I would say your Honor is correct, but if you just were looking at it in terms of this is a settlement, you pay us royalties and we won't sue you, which is what these are, covenants not to sue, I think probably if you go too far you are in the licensing business, then I accept Mr. Kirby's brief. At that point, if these were true licenses, we were purporting to license the King Kong name and everything about it, we would have an obligation as licensor to exercise supervision and all of the things that flow from that, the marking of it, the looking at the product and so forth would all flow. But if you decide that it is simply a settlement agreement, and that is why I refer to the Cross Pen decision, it is not an assignment --

JUDGE FRIENDLY: What is the name of that?

MR. FAIRHURST: The name of the decision, your Honor -- I will ask my associate to find the case for you. I call it the Cross Pen decision. I would encourage the Court to read both the District Court, it is Rhode Island, and the -- your Honor, it is T & T Manufacturing Co. v. A. T. Cross, page 36 of our brief.

JUDGE FRIENDLY: I see it.

MR. FAIRHURST: Judge Sweet relied on the DuPont case from the Court of Patent Appeals, and the First Circuit does not disagree with it entirely but did not accept it.

JUDGE FRIENDLY: What do you say about Mr. Kirby's example of the Rolls Royce? How do you distinguish that?

MR. FAIRHURST: If Rolls Royce entered into an agreement licensing the product that was infringing? If they licensed it, I would agree with him. But if Rolls Royce simply settled, I would say it was a foolish settlement, given Rolls Royce's status.

JUDGE FRIENDLY: Isn't that semantics? You can't get away from the principle by using the word "settlement" instead of licensing.

MR. FAIRHURST: I think, your Honor, it is

1 not semantics. Let me say why I think so. If you say
2 it is a license, then, as I said before, I accept Mr.
3 Kirby's point and I would make the point of the law
4 that you then have an obligation to supervise it, to
5 make sure that there is a distinguishing factor, maybe,
6 for example --
7

8 JUDGE MESKILL: But you are not prohibiting
9 Coleco from continuing to put these things on the
10 market as long as they pay 3 percent or whatever?

11 MR. FAIRHURST: That is correct.

12 JUDGE MESKILL: So if there is confusion by
13 Donkey Kong, you are in effect saying, "It is OK to
14 create that confusion as long as we get a piece of the
15 action."

16 MR. FAIRHURST: I would have to say that
17 that is so, and that is why I cite the Cross Pen,
18 because they accepted that too. And the factor which
19 distinguishes it or that the Court accepted in the
20 First Circuit which puts it out of the true concern of
21 trademark law is this: They said, as long as the
22 quality of the product is such that you are not
23 permitting someone to confuse the public with an
24 inferior product, we are willing to reconcile that
25 conflict -- and this is the point that Judge Friendly

1 was getting at, I guess, the tension between trademark
2 laws and contract laws -- we are willing to resolve the
3 issue as a policy matter in favor of contract. And in
4 the Cross Pen case, the second user I believe was named
5 Quill, Cross didn't claim that the pens were not good;
6 they simply said, "We are not giving you a trademark
7 but we are not going to sue you." What we said, what
8 Universal said to Coleco and Atari was, "We won't sue
9 you if you pay us a royalty."
10

11 I might also point out, your Honor, this
12 occurred seven months after these products, the
13 Nintendo arcade game, was on the market, and to that
14 extent, no, no preliminary injunction was sought in
15 this case. It would have been, I think, at that point
16 a real problem because of the delay. And the delay was
17 not Universal's fault. Universal testified below that
18 it learned of the existence of this arcade game, Donkey
19 Kong, at a meeting with a Coleco executive on April, I
20 believe, 27, 1982, a reason I only know because I am
21 defending the other lawsuit as well.

22 But the point is, Universal didn't sit back.
23 As soon as it heard about this, it sent a telex or
24 telegram to Nintendo, a telegram to Coleco, and it put
25 them on notice of its rights. Then this lawsuit

1 followed in June. I think Judge Sweet says below it
2 was in April, I don't know why, but it followed on June
3 29.
4

5 Finally -- I think I might have overused my
6 time -- but insofar as sending the case back, if this
7 case goes back, and I believe it should, certainly on
8 the trademark issue, because the Judge did something on
9 a summary judgment which he ought not to have done. He
10 did resolve fact issues and he said so once, only once
11 in the opinion when he refers to taking the evidence of
12 Nintendo's intention to use King Kong or basing it with
13 the idea of a picture in mind. He said he didn't think
14 that, given all the circumstances, that was bad faith.
15 But he was resolving it. He was drawing inferences and
16 resolving it. There was affidavit testimony and
17 deposition testimony below that Universal has the
18 exclusive rights today to use the King Kong name, and
19 though it may have been modest use, Universal began
20 using that trademark, King Kong, in 1980,
21 contemporaneous with the expiration of the then
22 outstanding license agreements.

23 We think the case should go back and we
24 think it should go back with some instructions on
25 secondary meaning and some instructions on the

WC

assignments as well. Thank you.

41

JUDGE MESKILL: We reserve our decision.

- - -

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25